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Pension Tax Reversal

By Mike Causey
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The Senate Finance Committee reversed its position yesterday on pension taxes by agreeing to eliminate, within two years, the tax-free post-retirement period for federal, state and local government employes and others who help finance their own pension plans.

A draft of the tax reform bill released Monday evening did not mention the pension tax changes. But congressional sources said agreement on language for the revision was reached later. Details of the plan, which has not been formally approved by the committee, are sketchy. But Sen. Paul Trible (R-Va.), an opponent of any pension tax change, said it calls for phasing in the changes by January 1988.

Currently, workers who contribute to their pensions (and pay taxes on those contributions) aren't taxed on their pension benefits until they get back all the money they put in. The recovery period on average amounts to about 18 months. After that, retirees pay full taxes on their pensions.

The House version of the tax reform measure would subject pensions to immediate taxation, starting July 1. The taxes would be based on a complicated prorating formula tied to life expectancy.

The Congressional Federal Government Service Task Force says the House change would mean an early tax bite of $10,000 in the first three years of retirement for the average civil servant and much more for longtime, highly paid workers.

Changes in the tax rules governing pensions are opposed by all organizations representing federal and postal employes.

Federal personnel officials have predicted a mass exodus of early retirees—about 200,000 feds are now eligible to leave—before July 1 to beat the deadline set in the House tax bill. Opponents had hoped the Senate would leave federal pension taxes out of any tax reform bill it approves.

But sources say the draft tax bill of the Senate Finance Committee merely delays the effects of the House pension tax changes for two years. Many members of Congress quietly opposed the July 1 date in the House bill because they plan to retire next January.

Trible denounced the Senate plan yesterday, calling the draft provision "totally unacceptable."

"The phase-in would only postpone the disastrous consequences of taxing retirement benefits," he said. Trible is the sponsor of a resolution that would put the Senate on record as favoring the continuation of current tax rules for federal and public employe retirees.

Under the Senate agreement, Trible said, 50 percent of the benefits of employes retiring after Jan. 1 would be taxed. Starting in 1987, all benefits would be taxed on the same prorated basis as provided in the House bill.

None of this is official until the committee approves a final tax plan, which then must be approved by the Senate. Once that happens, the Senate and House versions will go to a joint Senate-House conference committee that will seek to reach a compromise Congress and the president can accept.

On The Air

Richard Fink, president of Citizens for a Sound Economy, will talk about proposals to "privatize" the government at 1 p.m. tomorrow on radio station WNTR (1050 AM). Fink's group, the Heritage Foundation and other organizations contend that the government could save millions of dollars if it let the private sector take over many of the services now delivered by civil servants. There are all sorts of proposals to let industry handle chores that traditionally have been reserved for the government.